RALLIS INDIA LIMITED

April 29, 2024

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
Scrip Code: **500355**

National Stock Exchange of India Limited
Exchange Plaza
Bandra-Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol: **RALLIS**

Dear Sir/Madam,

Sub: Transcript of Analyst/Institutional Investors Call pertaining to the Audited Financial Results for the quarter and financial year ended March 31, 2024

Further to our letter dated April 10, 2024, we enclose herewith a copy of the transcript of the Analyst/Institutional Investors Call on the Audited Financial Results of the Company for the quarter and financial year ended March 31, 2024 held on Tuesday, April 23, 2024.

The same is also being made available on the Company's website at: https://www.rallis.com/investors/Financial-Performance

You are requested to take the same on record.

Thanking you,

Yours faithfully,
For Rallis India Limited

SRIKANT SHIVDAS NAIR
Digitally signed by SRIKANT SHIVDAS NAIR
Date: 2024.04.29 15:32:10 +05'30'

Srikant Nair
Company Secretary & Compliance officer

Rallis India Limited
Q4 FY '24 Earnings Conference Call
April 23, 2024

Moderator: Ladies and gentlemen, good day and welcome to Rallis India Limited's Q4 FY24 Earnings Conference Call. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa. Thank you and over to you, sir.

Gavin Desa: Thank you, Michelle. Good day, everyone, and thank you for joining us on Rallis India Limited's Q4 and FY24 Earnings Call. We have with us today Mr. Gyanendra Shukla, Managing Director and CEO, Mr. Nagarajan, the Chief Operating Officer, and Ms. Subhra Gourisaria, Chief Financial Officer. Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the result presentation.

I now invite Mr. Shukla to begin proceedings of the call. Over to you, sir.

Gyanendra Shukla: Thanks, Gavin. Good morning, everyone, and thank you for joining us today in our Q4 FY24 Earnings Call. As mentioned by Gavin, I have alongside with me Nagarajan, who is our Chief Operating Officer, and Subhra, who is our CFO. Let me begin the discussion by delving into the industry landscape initially, post which I will discuss Rallis' specific developments. But before that, let me provide a brief overview of my background. I'm new to the company, but I have over three decades of experience.

I have handled diverse roles and assignments across various regions, and I have spent about two decades at Monsanto, and then my last job was at JK Agri Genetics before joining Rallis India. I'm excited to be part of the Rallis family and take our journey forward.

Moving forward in terms of domestic market, demand was sluggish, with Q4 being a seasonably small quarter.

Low reservoir levels and heat waves in the southern region impacted overall demand. However, northern and western regions have seen good momentum. The outlook is positive with the news around La Nina. We are expecting good rains. Export business continues to witness low prices and poor demand, as channel destocking continues across the globe. Commentary from many global players also indicate that getting back to normal demand level may take longer than originally anticipated.

Moving on to the Rallis developments, our sales for the quarter stood at Rs.436 crore, and we have a degrowth of roughly 17% over the corresponding period quarter last year. A large part of this degrowth was price-led, with volume degrowth being in low single digit. If we further look into this, domestic crop care experienced a 9% degrowth solely attributed to the price drop, with volume being flat.

Export business experienced a major drop with 27% decline, with a drop across both price and volumes. The seed business had a growth over a small base in the quarter 4, with full-year growth being 21%. So, seed has really turned around this year quite well.

During these times, our teams have been focusing on shorter calls on both procurement and pricing, enabling improvements in gross margins. This year, there was some work done on overhead optimization. As a result, despite quarter 4 being a low seasonal quarter for us, our actions around pricing and cost management have helped the business generate Rs.6 crore of EBITDA. Loss for the quarter is around Rs 21 cr versus the loss in the similar period last year, about Rs.69 crore. Last year, quarter EBITDA was also impacted by Rs 63 crore for the provision taken for slow-moving inventory and impairment of intangibles.

Turning our attention to individual businesses, starting with domestic business, our efforts in recent years have been more directed towards having differentiated products, offering to solve farmers' needs. We have a robust exercise of starting with the product-pest combination to identify the gaps and have the right product to fill them. The pace of new product launches has picked up meaningfully in recent years.

In quarter 4, we have launched three new products in the crop nutrition portfolio, reaching to a total count of 19 new product launches, out of which 13 are being under crop protection and 6 are under crop nutrition portfolio. Our innovation turnover index has improved to 15.9%. We recognize this is a key lever for growth and are taking various steps to scale up launches. You will see more efforts in the future increasingly getting directed towards it.

We will continue our endeavor to increase the market reach in targeted geographies. Our distribution network for domestic crop care stood at roughly 4,500 dealers and a retail footprint of about 60,000as of March 24. We are also progressively increasing digital investment both in the front and back end to build a more connected, agile, and effective organization.

Moving to the seed business, after a few challenging years, I'm very pleased to report that fiscal year '24 has been a good year for the business. Growth was robust at 21%, led by volumes on the backup good offtake for our cotton hybrids, namely Diggaz and Aatish Express. In addition to cotton hybrids, sales for the other crops like paddy, maize, and millet also remained steady. Through several concerted actions taken during the last couple of years, we have been able to make the business more focused and optimized, helping to break even during the year. Our efforts are now around building a promising portfolio pipeline. Teams are focused on Kharif '24 as we are already entering the season and working their best to address the industry challenges of shortages across hybrid seeds.

Moving on to international business, the lower prices and soft demand continued amidst channel destocking. We expect the situation to persist for some more time. Acephate is facing challenges in Brazil and price for all our key active ingredients continues to be soft. The geopolitical situation further adds uncertainty to the timing of recovery. Even during these turbulent times, Pendimethalin continues to show good traction, especially in the U.S. and EU. We have already announced our plan to scale up production capacities, which should become operational by the end of fiscal year 25.

Our custom synthesis and manufacturing business was steady during the year. We finished the production of new CM material for our multipurpose plant and are readying the plant for the smaller batches of an intermediate for another innovator. We continue to engage with prospective customers, including their visits to our plants, and we are hopeful that some of these will translate into meaningful future opportunities.

Even though industry and business are navigating through near-term challenges, we are committed to our longer-term strategy and our making necessary investment towards it. On a positive note, I am happy with the advance collections in our seed business and the continuing good response for our cotton seed, Diggaz and other hybrids which are being sold in northern part of India. That concludes my opening remarks.

I will now hand over it to Subhra for a detailed analysis of the financials. Over to you, Subhra.

Subhra Gourisaria: Thank you. Good morning, everyone, and thank you for joining us today for our Q4 and FY24 earnings call. I will walk you through our financial performance for the quarter, post which we shall commence our Q&A session.

Starting with the top line for the quarter, our revenue stood at Rs.436 crore as against Rs.523 crore for the same period last year, which is lower by 17%. A large part of this drop was due to the pricing drop of 13%, which is due to a sharp meltdown in input costs. Exports continue to be under pressure, with the quarter degrowth being 27%. EBITDA for the quarter stood at Rs.6 crore against a total loss of Rs.65 crore for the same period last year. Loss for the quarter stood at Rs. 21 crore as against a loss of Rs.69 crore during the previous year.

Moving on to business-wise performance. As far as exports are concerned, volume growth remains benign amid channel destocking. Demand trend across the key markets remains muted. In addition to the weak demand, we have also witnessed sharp moderation in the prices of our key products during the fiscal, with rates for some of our key input raw materials dropping in the range of 40% to 60% from the peak levels.

As far as seeds business is concerned, we had a fairly good year, underpinned by the strong performance of our cotton hybrids, a few of which have seen significant growth in volumes. Besides improving the product portfolio, we are also committed to keeping lower inventory covers to improve our agility. Our inventory levels in seeds have significantly reduced. We are also using technology in deploying solutions, which we believe will significantly help in reducing sales return, thereby enabling efficiency in operations. Our efforts in cost savings have also helped us break even during the year.

Volume growth was flat in domestic business, with price degrowth contributing to the overall degrowth of 9%. Despite this, timely actions and efforts towards improving the mix over the years have helped in improving gross profit to more than 30%. We continue to take shorter pricing and procurement calls and build strategic inventory only as it is relevant. Our actions around working capital have continued.

With good efforts on inventory and debtors, we have close to Rs.280 crore of liquid balance as on March 31st, with near nil borrowings. This healthy cash position will help us in good stead and help us navigate these volatile times. We are also taking several steps to improve the asset utilization levels by building necessary flexibility. We expect our capex to be in the range of Rs.100 crore to Rs.150 crore.

That concludes the opening remarks. We can now commence the Q&A.

Moderator: Thank you very much, ma'am. The first question is from the line of Viraj Kacharia from SiMPL.

Viraj Kacharia: Just a couple of questions, first is on the domestic business, if you can just probably give some perspective in terms of volume in this particular quarter and how does our inventory in the market compare versus the overall industry?

S. Nagarajan: So if I got you right, Viraj, you wanted to know the inventory position in the market. We think that our inventory is a little on the higher side compared to our previous year. However, we think it is comparable to what we find in the industry.

We have had some difficulties in the quarter four of last year in terms of liquidation, which has contributed to this. As far as the volume growth in the domestic business…

Subhra Gourisaria: It is flat.

S. Nagarajan: It has been flat. Volume growth has been flat.

Viraj: Okay. Second question is on the contribution margins for the company as a whole, right? So if I look at the period between, say, 2014 to 2018, right, the company used to generate average contribution margins, gross margins of around 44%, 45%. And if you look at each of those two businesses, say, crop care and so on, upwards of 40% to 45%, seeds used to be close to 50% gross margin.

But since 2019, since we don't publish, if you look at the period between 2019 to 2024, that moderation has come down to 40% in gross margin. So if one wants to just understand the factors which contributed to a higher contribution margin in that period between 2014 to 2018 and the reasons for moderation in the last five years.

So why I'm asking this is because if I look at Q4 particularly, we reported a contribution margin of roughly around 44%, which is the highest it has been in the last six years. So if one can just give a perspective, the reasons why we used to earn such a high margin in the past and the reason for moderation and how one should look at contribution margin behaving for us in the future.

Subhra Gourisaria: So, Viraj, firstly, I think given the seasonality of the business, you should only look at annualized numbers, not look at quarter numbers in terms of gross margins. So longer term over the last four, five years, your assessment is right, that the gross margins have indeed come down.

And it is a combination of raw material inflation, which was not fully absorbed through prices. We had a volatile situation globally. In the last few quarters, I would say last year, we have done relatively better in terms of improving our price versus cost .

And certainly the other big factor which influences gross margin is crop care versus seeds. Seeds makes relatively better margins. So as the seeds mix in the portfolio keeps dropping, which is what has happened in the last two years, the gross margins have also come down as a result.

Moderator: The next question is from the line of Abhijit Akella from Kotak Institutional Equities.

Abhijit Akella: Just a couple of questions, first on the financials, the finance cost seems to be a little bit on the higher side this quarter, about Rs.8 crore, even though we've paid down all the debt basically on the balance sheet.

So just sort of wondering what might be driving that. And then on the capex number for the year, I believe it was about Rs.80-odd crore. Was that a little bit lower than your original plans? If so, were there any project deferrals? And then what do we expect next year's capex to be spent on, which projects in particular? Thank you.

Subhra Gourisaria: So, on your first question on finance cost, so you're right that there's practically no borrowings. So this finance cost is more of IND-AS ROU assets and the factoring that we do for export receivables. So that's what is sitting in the interest cost. As far as the question on capex is concerned, the large part of our capex was completed. I would say the capex cycle was completed towards FY'23.

What you see in FY'24 is more the residual capex for multipurpose plant, which we commissioned in the midcourse of the year, and more on sustenance capex. Given that the larger part of the capex cycle, I believe, is now complete out of the original plan that we had decided, FY'25 capex should be in the vicinity of Rs.100 to Rs.150. We have a bigger exercise to now get maximum utilization from the assets commissioned.

Abhijit Akella: Okay. So that will be primarily maintenance capex again, right, going forward?

Gyanendra Shukla: Maintenance capex plus we want to invest something in R&D.

Abhijit Akella: Okay, understood. And also just to follow up on the finance cost, so given that this is largely factoring for receivables, and then the Ind-AS impact, should we expect this to be a sustainable run rate going forward on a quarterly run rate basis?

Subhra Gourisaria: It will drop to a certain extent, but you can say, Abhijit, it would be in a similar range.

Abhijit Akella: Understood.

Subhra Gourisaria: You would have seen that -- in our balance sheet also, you would have seen the ROU assets have also gone up. So this is more around depreciation and interest, and in COGS you see some contra impact. So Rs.3 crore-Rs.4 crore you'll see there.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: My first question is on the domestic crop protection side, you did mention launch of new products. So wanted your comments in terms of how should one look at the new product ramp up or new product launches going ahead. And for FY'24, broadly, how has been the contribution from older products versus the newer products?

S. Nagarajan: So as far as FY'24 is concerned, as you may have seen in the investor deck, the ITI index, which we actually calculate, based on the last four years introductions, what kind of revenue they contribute to the base, that has actually reached about 16%, which was higher than the previous two, three years figures. In terms of the products that we launched in FY'24, some of the crop protection products have received a very, very encouraging response. We do believe that there is a significant opportunity to scale up.

Clasto is one of the brands that we are really hopeful of scaling up sizably in the years to come. Some of the other products have had relatively satisfactory kind of scale-up, but not in the same league as Clasto.

Ankur Periwal: Okay. And secondly, on the seeds business, while this year we saw a good growth on the revenue front, and in the initial comments we did mention on, you know, ramp up in terms of overheads being lower and margin uptake, just wanted to get your thoughts on both revenue growth as well as on the margin side and whether the revenue growth will be only led by cotton or there are some more initiatives across other crops?

S. Nagarajan: Cotton is certainly a very important component and we are very hopeful that Diggaz will further scale up. In terms of the immediate situation, as we have mentioned, there have been challenges in the production quantities in the Rabi of last year. But if you discount that and kind of look at it over a longer time frame, we certainly believe we have opportunity to scale up in both paddy maize, I mean in paddy maize and in Bajra. All the three crops.

Moderator: The next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Yes. Hi team. Good morning and thanks for the opportunity. So my question is that in the last four to five years, we had a vision of almost capex of Rs.800 crores in driving the capacities in different verticals in the company. I think that is broadly over now. However, not much reflected in the bottom line of the company, but at least the capex cycle is over.

Just wanted to understand that at the management level, do you have any further thought process? So you gave some number of next year capex of close to Rs.100 crore, but do you have that over next three to four years? What kind of investment you want to make in the business? And if not, then we are still a very healthy cash flow generating company. So what are the expected uses of the free cash flows that you are going to generate over next three to four years?

Gyanendra Shukla: Yes. so I think as far as capex is concerned, manufacturing side, I think we have done enough. And as we said, it will be sustenance only. On R&D side, we believe that we need to ramp up. And so the current year capex, we are looking at really more directed towards R&D.

And I think R&D, our ability to launch new product and then our ability to produce, these are the two fundamental things. Now, going forward, I guess our focus is going to be shifting more towards improving, enhancing our customer connect. Probably increasing our marketing spend where we can actually get more stickiness with the customers. Because now backend is ready, we have to focus on the customer.

Rohan Gupta: So in terms of the CRAMS business, which has yet not seen any significant ramp up in the last two to three years. Also in B2B where some of the product prices have been weak. Do you see that part of the business where the investment in MPP and all has already gone and the prices globally have stabilized, So is that business showing some kind of recovery and do we expect that over the next two to three years? Do you see that any major ramp up can be seen in a CRAMS business and also in a B2B category where we have a couple of products?

Gyanendra Shukla: So you're right. I think we are almost getting out of a very difficult cycle the industry has gone through. And still, if you look at the commentary which has come from the global companies, there are still some residual challenges left. And the way this plant is designed with a variety of reactions we can do I think now really we're going to focus on B2B customer and say, look, how we can generate extra business. And part of the purpose is that we can do different kind of products.

So I guess that's the next focus. And I guess it doesn't reflect right now because the situation itself is very difficult. But going forward, the purpose for which is created, I'm sure we'll have more opportunities on our way.

Moderator: The next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: So I have a couple, firstly, on the active ingredient pricing, I think we've seen a fair bit of stabilization happening in some of the key AIs. So do you think that this is kind of bottomed out here and from here on with improvement in pricing, especially on the international business going ahead? Let's say maybe a couple of quarters down the line, we should start seeing a pickup on the pricing front and on the volume side.

Gyanendra Shukla: Well, I mean, I don't have a crystal ball to predict, but all I can say, yes, there has been, I mean, the steep decline which was happening that has slowed down. And it varies from molecule to molecule. Some molecules are almost stabilized and so on. Marginal upward trend. But by and large, I would say it's stabilized.

A lot will depend on how this inventory starts getting consumed globally because they're all part of the global network. These molecules are traded across the globe. So how agriculture consumption goes around the world that will depend a lot on that.

Archit Joshi: So my second question is, with your experience with a very successful seed franchise like Monsanto, have you had any strategy for Rallis' seed business, which is just at the cusp of being turned around, especially in FY '24? Anything that you've identified as a strategy for Rallis' seed business going forward, picking up cues from your previous experience in Monsanto?

Gyanendra Shukla: So I think seed business, basically what I call is a germplasm business. And I have just resumed here. I'm in the process of reviewing the details of the business. But I believe we have good fundamentals in place. And what works for seed companies around the world is really focus. I think we are going to really focus on important segments, important markets, and important crops.

And there's no reason. I mean, obviously, we're all part of the cyclical business. Things will happen. But I think the kind of focus we give and the kind of investment we make in the technology and germplasm that will define future success and growth. Obviously, we had sort of short-term challenges. And sometimes they cannot be foreseen But yes, we have a thought process. It's too early to comment on that. But yes, there's a thinking going on.

Moderator: The next question is from the line of Darshita Shah from Antique Stock Broking.

Darshita Shah: I had two questions. One was regarding CRAMS. I think we commercialized one formulation and one intermediate last year. So I wanted to understand the scale up and the plan for FY '25, if you have any? And I think there was one more product that we were to commercialized in CRAMS. So probably some update on that. And second on the MPP capacity utilization? How was it by the end of FY '24? FY '25, we have given a guidance of 60%. So do we expect to achieve that? And apart from Difenoconazole, how many more products do we have in the pipeline to be launched at the MPP for FY '25?

S. Nagarajan: Yes, I think as far as the introductions of last year are concerned, they have more or less been completed. There is one of the products which will be completing in April. In terms of scaling up for those, certainly they are also susceptible to the kind of global challenges in terms of inventory, which the customers are also sort of experiencing. So we are in discussions with the customer in terms of the volume requirements for the upcoming year.

As far as the MPP itself is concerned, we have an opportunity to do an intermediate for an innovator company, which we have mentioned in the opening remarks, which is what we are next getting geared up for. Certainly, I think as the requirement for the different AIs and intermediate volumes stabilize, there is an expectation that our MPP utilization will also improve. At this point in time, certainly it is a bit uncertain, and we are working through that. We are working with the customers to improve the utilization levels.

Darshita Shah: Okay. Any guidance for FY'25 towards utilization? Or we probably comment later on that?

Subhra Gourisaria: I don't think we can work out the utilization because it depends on which products are being manufactured. But suffice to say that we will work on maximizing the utilization.

Moderator: The next question is from the line of S. Ramesh from Nirmal Bang Equities.

S. Ramesh: So if you look at the results, despite the fall in top line, there is an improvement in the margins in the domestic business. So is that something of a silver lining? Is that kind of trend likely to sustain in FY'25?

And what is the kind of ballpark volume growth you can expect assuming that the monsoon is as good as expected based on the met forecast?

Subhra Gourisaria: So margins I don't think – see, we are trying to do whatever is best in terms of managing the cost versus price competitively and looking at how do you do it in an agile manner to ensure that the gross margin keeps improving, but it's difficult to I would say give any forward guidance in this respect. Monsoons, yes, there's a positivity around it currently, but how it spreads spatially and how is it in terms of timing needs to be watched out, but certainly there's a lot of optimism around it at present in terms of domestic markets.

S Ramesh: So is there any indication from the channels in terms of their willingness to take additional material in anticipation of demand or we have to wait till we see the monsoons in May, June? How does the season look as we stand today?

Gyanendra Shukla: Yes, so I think it's too early for crop protection business, but yes seed we have seen increased interest from the trade channel and that is also reflected in some of the advances we collect from the market. So seed, yes, optimism and a good seed purchase, good planted acres and supported by good rainfall generally in normal course would lead to a good crop protection season.

S Ramesh: Okay. And what would be the current capacity utilization in all your AI plants both for domestic and exports?

Subhra Gourisaria: So it differs between plants to plants. For instance, pendimethalin we are seeing positive uptake and that's where the capacity utilizations will be better. Acephate we'll have to ensure that the cost dynamics are taken care.

Otherwise, the demand levels, I would say, we mostly end up using for the full capacity levels. Metribuzin, yes, the capacity utilization is currently lower and that's where we're working on in terms of how do we flexibilize the capacity utilization. Hexaconazole is more or less around the full capacity utilization.

S Ramesh: Okay. Thank you very much. And Mr. Shukla, welcome aboard and wish you all the best. Thank you very much.

Moderator: The next question is from the line of Somaiah V from Avendus Spark.

Somaiah V: First question is on the domestic market, sir. From a pricing standpoint, so we've seen decline last year. So do you think that we are almost bottoming out there and then we do expect price increase the rest of the year or what is the status there in the domestic pricing?

Gyanendra Shukla: If you're referring about crop protection, I would say, look from a very what do you call unfavorable weather for last 6 months in the country which has led to certain inventory buildup and the next consumption cycle of crop protection, the big one really starts after the rains.

So I think still there's a pressure on the market. As I said, when question was asked by Ramesh that things have to, I mean, things are looking positive from seed offtake perspective, but then it has to translate into a good crop later on.

Somaiah V: Understood, sir. Secondly, pendimethalin capacity that you are referring to, you were referring to increase by end of FY25 some capacity additions. So what are the capacity addition quantum here and what will be at end of FY25. If you can give the capacity in total for pendi and metribuzin, it will be helpful by end of FY25?

Subhra Gourisaria: Pendimethalin is where we are looking at capacity expansion and it should go in the vicinity of around 7,000 tons. Metribuzin is -- we are not looking at any capacity expansion. Metribuzin is the current capacity, which is around 3,000 tons.

Moderator: The next question is from the line of Ravi Purohit from SiMPL.

Ravi Purohit: I have a question for Mr. Shukla. Sir you've been part of Mahyco Monsanto for a fairly long period of time. And I think our new independent director, Mr. D. Narain also has been part of the Monsanto Group and Bayer Crop Sciences subsequently for a longer period of time.

So we have two very strong experienced people who have joined Rallis, one as an Independent Director and one as a Managing Director. And especially the two most successful seed brands also Dekalb and BT Cotton.

So if you could just share your own vision for Rallis India now that you've joined here as an MD for the next 5 years, do you have any vision in your mind as to what are the things that you would like where would you like Rallis to be in 3 years or 5 years from now?

And what are the segments which you think could lead that growth for the company? Does seeds have that kind of potential? Today we are only Rs, 200 crore, Rs300 crore, Rs 400 crore in revenue terms whereas the market itself is very large compared to that. So if you could just spend some time and just share a vision with all the listeners today it will be helpful for us to kind of see this forward?

Gyanendra Shukla: Thank you for asking a question on and around the strategy. No, thank you very much for that question. The two things I would say, look, if you look Rallis as a company I think we have a very strong parentage and our brand is very strong and we have done a good job of enhancing our manufacturing capabilities.

There has been also some work done on improving the quality of the seed research. We have a very extensive distribution network and I think the important thing is from here on how we direct some of the resources towards R&D. I think our R&D capability needs to be further enhanced because the both businesses we are in, our ability to launch new product and scale them fast will actually define because it's a very competitive segment.

There's no dearth of player and everybody's trying to do the same thing. It depends who does things faster and better. I think speed matters and our ability to really innovate faster. So our focus is going to be shifting more towards how effectively we connect with our customers.

So how do we deepen our relationship with the customers and how fast we basically bring the new product because we get those two things right. I think our ability to launch big and then scale up the volume will significantly enhance. So if you say focus, focus is really R&D and customer connect as we move forward.

Ravi Purohit: Okay. And sir, if we could also kind of share a little bit about our strategy on CRAMS and some of the products that we've mentioned in the last quarter that we've started for one intermediate, one formulation and there was also one product which we had started supplying after a long period of time.

So generally what kind of scale up can we see in this segment of the business over a longer period of time? What kind of potential does it hold? We've been working at it for a long period of time. So when do we actually see the fruits of all the investments and all the time and effort that has been put out in this business?

Gyanendra Shukla: Yes, so difficult to predict the timeline, but this CRAMS business primarily depends on our efficiency, our ability to deliver efficiency to the customer. So that aspect certainly we are particularly looking at it. And other thing is really developing our relationship with the potential customer. I guess a lot of these customers as part of, I would say, China Plus One strategy also would be attracted to India. It's a question of who gets them first. I think we have good capacity, good credentials backed by our group parentage.

I think we're the right candidate for those customers. I think we have to reach out to more customers and demonstrate them our capabilities and develop some long term relationship to make that business successful. So that's all I would say from a strategy perspective.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: So first question again slightly delving on the new project Rallis Science and Technology Centre. So what could be different from what we have been doing till now and given that R&D will be relatively high gestation period project or segment.

When do we see any fruitful outcome of these, given that, it may take 2 years, 3 years down the line to actually come out with new technologies or so? And just if you can give us where we are currently lacking in terms of technology or R&D capabilities, and which are the areas which we want to strengthen like whether it is the new molecule development or the molecules which are currently going off patent. So we would like to enter into those areas. Just a little bit more would be really helpful.

Gyanendra Shukla: Yes, so look, so one thing is very, very important to understand. Rallis is doing R&D, right? So we have been investing in R&D and significantly enough. Now we are developing a new center because we want to move to a better center, which has a better working environment. I know for the potential scientists and technical people will be working there. So the R&D investment from that perspective is more directed at improving infrastructure.

Now, from a focus perspective, as we said, if you look at crop protection side, I think one of the areas probably we have not invested in the past is some of the new chemistries which have come up on the fluorination and all. So that's where our focus is going to be.

On the seed side, I guess we were focusing on seed research, biotech, and everything else. But there is a lot of attention shifting globally to leveraging more modern breeding tools like genomics, phenomics, and all, those kind of tools. So we are going to reorient our R&D to more modern tools because that brings a better product and it also reduces the time needed for the innovation.

So that's how we are going. I think at the end of the day, an R&D infrastructure is part of the thing, but the kind of people you get in the kind of direction they get and what kind of tool we can provide. So our focus is really more people and tools enabled R&D. Building is just a part of it.

Rohit Nagraj: Sure. Thanks. That's helpful. The second question is in terms of the current environment, in terms of the pricing has more or less bottomed out. However, you also mentioned that there have been inventories in the system, both in domestic market as well as global market. So even if we assume that the rainfall is normal and it leads to volume growth, is there any possibility that since last year average pricing was relatively higher and given that we are at the bottom of the pricing, it may not get reflected in strong revenue growth despite a strong volume growth led by monsoon during the next Kharif season? Your perspective. Thank you.

Gyanendra Shukla: So you're right. I guess market is generally carrying a little high cost inventory and market price realization may not be same. But I guess the situation we are entering is better than what we were in. We have to be optimistic and we have to work towards it.

Subhra Gourisaria: The anniversary of pricing drop will take some time, but I think we should look at more effort and whether we are able to ensure that the price versus cost is positive. So there could be a temporary maybe in one quarter and impact because of the price drop in the base anniversary.

Moderator: The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management.

Arjun Khanna: My first question was regarding the fertilizer piece. I do see a slide number six where we have talked about water soluble fertilizers, etcetera. Just wanted to understand, are we looking at nano-urea, nano-dap? Is there any R&D going on that front?

Gyanendra Shukla: So you already know that we are not in the bulk fertilizer and nano-urea also basically is part of the same segment. We are not looking at that segment as of now.

Arjun Khanna: Sure. And there's no R&D efforts going on that front?

Gyanendra Shukla: So our R&D and collaboration efforts are more directed towards crop nutrition, what we call, which are more specialty products.

S Nagarajan: Biostimulants, Bio-pesticides.

Gyanendra Shukla: Exactly. That helps in unlocking some of the locked nutrition in the soil.

Arjun Khanna: Fair enough. It's just that there's a line in the presentation, complete focus on non-subsidized fertilizers. So I figured since the nano side is non-subsidized. Anyway, fair enough. The second query is regarding parentage. So you did mention strong parentage on TATA group and that is held through TATA chemicals, which has also recently increased stake.

So are there any linkages in terms of our R&D efforts, etcetera, with their spec chem facilities? And how do we look at our relationship with our parent TATA chemicals?

Gyanendra Shukla: I think across the companies, our relationship remains very strong. We always keep looking at synergies. And as and when needed, obviously, we look at the capabilities they have got. We would never get into a situation where different companies are creating the same capabilities. We would internally leverage whatever we have.

Moderator: The next question is from the line of Abhijit Akella from Kotak Institutional Equities.

Abhijit Akella: The seeds inventory situation as of, in our books I'm saying, the inventory that we are carrying for the upcoming year, will it be possible to just quantify how much that is up by on a year-on-year basis?

Subhra Gourisaria: It's actually down, Abhijit, for the reasons that you mentioned. There are two reasons, actually. First, we liquidated some of the old inventory. So we actually took a call in terms of winding down, or become more focused in terms of inventory procurement for the hybrids which were low in terms of off-take.

And secondly, as we mentioned, that there were production challenges in terms of some of the hybrids. So the inventory levels are actually lower than last year.

Abhijit Akella: Got it. Thank you. And just the other one was, there was a mention earlier on in the call regarding an increase in advanced bookings in the seed business. So if it's possible to share some color around which crop business on, is it mainly on cotton? And if so, how much would be the increase in bookings year-over-year?

Gyanendra Shukla: In general, because industry, I think trade probably understands that inventory is going to be in short supply because it's just not our problem. In general, productions have been lower because of the water and rainfall challenges in the seed production areas. So it's channel's way of trying to secure supplies for them.

Subhra Gourisaria: It is significantly higher than last year, Abhijit, and it's also driven buoyancy towards the cotton hybrid demand that we have.

Moderator: Thank you, Ma'am. The next question is from the line of Viraj Kacharia from SIMPL.

Viraj Kacharia: Yes, three questions. First is on a follow-up on the gross margin. If you look at the last one year itself, and you look at the way RM’s behaved, a lot of other B2C companies have seen a sizable expansion in gross margin.

So for us, when we say the RM’s held, but when you see all the overall reported numbers, the expansion has not been to that extent. So what has been the dragged – what factors do you think have dragged the expansion in gross margin? And just a part two on that is, first to kind of -- if you look at the overall balance sheet, which we have, we're on a net cash basis. And given the way the RM prices are now behaving in new segments, are we kind of looking at maximizing the spreads, at least in the domestic B2C business in terms of, say, buying out inventory in bulk? So that's one of the things we may be looking at going into 2025. So that is one.

Second is on the overall financials, if you look at '24 as a whole, we have something close to Rs.19, Rs.20 crores in terms of say provision for doubtful debts and impairments on intangibles. So is this what a sustainable runway one should expect going forward? Or there was some one-offs in '24 as well?

Subhra Gourisaria: So in terms of gross margin, the pure play B2C players might have had, but I think what we do is we balance out long-term and short-term. So we will not significantly increase the pricing if that's not competitive. Plus, of course, there's a dent in the margin which has come because of the international business, since we are looking at margins for crop care as a whole.

While the domestic formulations have done better, and I mentioned that the gross margins have improved there, but in exports, because of the entire competitive intensity, the margins are lower. I think your other question was around one-offs, right?

S Nagarajan: Sorry, procurement. Yes, we do buy what we call strategic procurement in order to take advantage of what we think is the pricing outlook for different raw materials. But that's a normal thing that we have been doing over the last few years.

Subhra Gourisaria: But we do not take any very long calls.

S Nagarajan: We take very calibrated and careful calls.

Subhra Gourisaria: We do not take long calls because it's difficult to predict whether it's still the bottom out or not, and I think it's important to be in the market. I would say be with the market rather than play long calls. The last one in terms of provisions, yes, there could be some provisions which would have come because the receivables have gone up, but nothing specific to be called out in terms of any one-off.

Moderator: The next question is from the line of Rahil Shah from Crown Capital.

Rahil Shah: Yes, hi, good morning. Firstly, I believe you mentioned about some capacity expansion. I just missed, for which line of product was it? I think you mentioned something 7000 tons by end of FY'25. Can you please just repeat for me?

S. Nagarajan: It's for Pendimethalin.

Rahil Shah: And what are your strategies for CRAMs? I believe you also spoke something about development there. So what are your strategies there? And now overall for FY'25, what can one expect going ahead in terms of overall business growth considering the pricing improvement you are seeing, the rainy season expected ahead, and the R&D strategies that will be there given the new facility and the expansion. So please, if you can just elaborate on that.

Gyanendra Shukla: Well, so as I said earlier, I don't think we are putting a number at this point of time. These are all positive signs. We are coming out of a very difficult season. So, we are calibrating those things, not in a position to give you guidance on the numbers.

Subhra Gourisaria: And CRAM strategy is certainly to get new contracts, to get new meaningful contracts, and all work is being done towards it.

Moderator: The next question is from the line of Nirbhay Mahawar from N Square Capital.

Nirbhay Mahawar: So just to follow up on the seed business, we have achieved roughly around Rs. 415 crore size, and still our margins are around 4%, which is significantly lower than the industry standard. So how do you see it changing over the next two, three years, and why our margins are significantly lower than the industry?

S. Nagarajan: So when you look at the performance for FY'24, I think we should take into account that we did have some hybrids, which we were aggressively getting rid off because we did not want them to later on come back. So therefore, I think this is something which has impacted the overall margin levels. As we go forward, I think the margins will have to clearly depend on the point that Dr. Shukla mentioned about differentiated hybrids coming out of good germ plasm and coming out of our R&D efforts. So that is really the way forward for us to improve both the business side as well as the margins.

Nirbhay Mahawar: Yes, this is a very generalistic answer. I'm trying to get specific over a period of last three, four, five years, if you look at. Our margins have been significantly lower. If you look at the listed competitor with a thousand crores sizes operating at 27%, 28% margins. We are barely breaking even. So what are we doing wrong in terms of, we have got Tata parentage, we have got a solid business team, but still we are not able to crack the business. And we have been very evasive over the last three, four, five years about this business.

Gyanendra Shukla: So I think seed is one business where product performance depends a lot. And seed is one business, if you get a blockbuster product, you can scale up disproportionately your business. And if you don't get a blockbuster product, then you stay where you are. I think in past, not that we have not been putting research, our research have not yielded products which could be significantly differentiated from a volume scale of perspective. Now, so what happens in this kind of businesses, you have to continue to invest in R&D and continue to have your presence in the market. And it has a cost depending on your portfolio, some spread is needed.

So margin expansion happens when you get a good product and you can sell it to more customer in a concentrated market. And that's where I was emphasizing that look, our R&D efforts need to get refocused so that we were operating in four, five critical crops. If we start getting on a regular basis, some differentiated product that will allow us to significantly ramp up the revenue and then margins can expand. There's a basic cost one has to keep investing in the seed business and continue to improve R&D and then you have to wait for your time.

Moderator: The next question is from the line of Rohan Shukla from Anand Rathi.

Rohan Shukla: So I just want to know about how much does the export contribute to a top line now? And what does it look like in the next few quarters going ahead?

Subhra Gourisaria: It's in the vicinity of 35% I would say. And this is because the numbers have said, this year we have seen a degrowth, but we are working towards how do we achieve the longer term strategy.

Rohan Shukla: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to the management for the closing comments. Over to you.

Gyanendra Shukla: So I really want to thank everyone for asking the questions. With that, we can conclude. Thank you very much for your time. Look forward to interactions in the future.